



Management's Discussion and Analysis
And Financial Statements
March 31, 2021 and 2020

**Sequoyah County-City of Sallisaw
Hospital Authority d/b/a Northeastern
Health System Sequoyah**

Sequoyah County-City of Sallisaw Hospital Authority
d/b/a Northeastern Health System Sequoyah

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March 31, 2021 and 2020

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Independent Auditor's Report

To the Board of Trustees
Sequoyah County-City of Sallisaw Hospital Authority
d/b/a Northeastern Health System Sequoyah
Sallisaw, OK

Report on the Financial Statements

We have audited the accompanying statements of net position of Sequoyah County-City of Sallisaw Hospital Authority d/b/a Northeastern Health System Sequoyah (Hospital) as of March 31, 2021 and 2020, and the related statements of revenues, expenses, and changes in net position and statements of cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sequoyah County-City of Sallisaw Hospital Authority d/b/a Northeastern Health System Sequoyah as of March 31, 2021 and 2020, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Correction of Error

As discussed in Note 14 to the financial statements, an error resulting in an understatement of accounts payable, net patient service revenue, purchased services and professional fees and supplies and other expenses and an understatement of net deficit as of March 31, 2020, were discovered by management of the Hospital during the current year. Accordingly, the 2020 financial statements have been restated to correct this error. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated October 18, 2021 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control over financial reporting or on compliance. That reports is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.



Oklahoma City, Oklahoma
October 18, 2021

Introduction

This discussion and analysis of the financial performance of Sequoyah County-City of Sallisaw Hospital Authority d/b/a Northeastern Health System Sequoyah (Hospital) provides an overall review of the Hospital's financial activities and balances as of and for the years ended March 31, 2021, 2020, and 2019. The intent of this discussion and analysis is to provide further information on the Hospital's performance as a whole; readers should also review the basic financial statements and the notes thereto to enhance their understanding of the Hospital's financial status.

Financial Highlights

- Current assets increased in 2021 by \$1,533,526 or 35% and increased in 2020 by \$1,774,705 or 70%.
- Current liabilities increased in 2021 by \$4,187,005 or 60% and increased in 2020 by \$2,544,439 or 58%.
- The Hospital's net position increased in 2021 by \$387,069 or 8% and decreased in 2020 by \$923,094 or 23%.
- The Hospital reported an operating loss in 2021 of \$1,737,648 and an operating loss in 2020 of \$1,752,792. During 2021, operating loss decreased by \$15,144 or 1% and decreased by \$727,647 or 29% in 2020.
- Net patient service revenue decreased in 2021 by \$343,037 or 3% and increased by \$2,343,423 or 26% in 2020.
- Other operating revenue decreased by \$153,515 or 78% in 2021 and increased by \$67,384 or 52% in 2020.
- Operating expenses decreased in 2021 by \$511,696 or 4% and increased \$1,683,160 or 14% in 2020.
- The Hospital received \$300,800 of Coronavirus Aid, Relief, and Economic Security Act Provider Relief Funds and recognized \$300,800 as revenue.

Using This Annual Report

The Hospital's financial statements consist of three statements – Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows. These financial statements and related notes provide information about activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Statements of Net Position and Statements of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about the Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Sequoyah County-City of Sallisaw Hospital Authority
d/b/a Northeastern Health System Sequoyah
Management's Discussion and Analysis

These two statements report the Hospital's net position and changes in net position. You can think of the Hospital's net position - the difference between assets and liabilities - as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

The Statements of Cash Flows

The final required statement is the Statements of Cash Flows, which reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash balance during the reporting period.

The Hospital's Net Position

The Hospital's net position is the difference between its assets and liabilities reported in the Statements of Net Position. The Hospital's net position increased by \$387,069 or 8% in 2021 and decreased by \$923,094 or 23% in 2020 as shown below.

Table 1: Assets, Liabilities, and Net Position

	2021	2020	2019
Assets		Restated	Restated
Current assets	\$ 5,861,422	\$ 4,327,896	\$ 2,553,191
Capital assets, net	1,641,570	1,874,650	2,105,000
Noncurrent assets	-	-	64,830
Total assets	<u>\$ 7,502,992</u>	<u>\$ 6,202,546</u>	<u>\$ 4,723,021</u>
Liabilities			
Current liabilities	\$ 11,134,534	\$ 6,947,529	\$ 4,403,090
Long term debt	897,628	4,171,256	4,313,076
Total liabilities	<u>12,032,162</u>	<u>11,118,785</u>	<u>8,716,166</u>
Net Position (Deficit)			
Net investment in capital assets	1,353,321	1,512,584	1,726,392
Unrestricted	<u>(5,882,491)</u>	<u>(6,428,823)</u>	<u>(5,719,537)</u>
Total net position (deficit)	<u>(4,529,170)</u>	<u>(4,916,239)</u>	<u>(3,993,145)</u>
Total liabilities and net position	<u>\$ 7,502,992</u>	<u>\$ 6,202,546</u>	<u>\$ 4,723,021</u>

Sequoyah County-City of Sallisaw Hospital Authority
d/b/a Northeastern Health System Sequoyah
Management's Discussion and Analysis

Assets, Liabilities, and Net Position

The Hospital's total assets increased \$1,300,446 or 21% in 2021 and increased \$1,479,525 or 31% in 2020.

- Current assets increased \$1,533,526 or 35% in 2021 compared to the increase of \$1,774,705 or 70% in 2020.
- Capital assets decreased by \$233,080 or 12% in 2021 due to annual depreciation. Capital assets decreased by \$230,350 or 11% in 2020 due to annual depreciation.

The Hospital's total liabilities increased \$913,377 or 8% in 2021 and increased \$2,402,619 or 28% in 2020.

- Accounts payable and accrued expenses decreased \$343,725 or 5% in 2021 and increased \$2,522,500 or 60% in 2020. The decrease in payables and accruals is attributable to process changes in billings and collections and timing issues.

Table 2: Operating Results and Changes in Net Position

	2021	2020	2019
Operating Revenues		Restated	Restated
Net patient service revenue	\$ 11,048,071	\$ 11,391,108	\$ 9,047,685
Other operating revenue	44,188	197,703	130,319
Total operating revenues	11,092,259	11,588,811	9,178,004
Operating Expenses			
Contract salary and benefits	7,298,350	7,815,470	6,105,200
Purchased services and professional fees	2,454,602	2,542,312	2,393,148
Supplies and other	2,750,538	2,621,440	2,719,726
Depreciation	326,417	362,381	440,369
Total operating expenses	12,829,907	13,341,603	11,658,443
Operating Loss	(1,737,648)	(1,752,792)	(2,480,439)
Nonoperating Revenues (Expenses)			
Interest income	6,963	6,470	178
Tax appropriations	833,346	756,811	702,714
Interest expense	(285,867)	(260,625)	(292,159)
Provider Relief Funds	300,800	-	-
Forgiveness of PPP Loan	1,280,600	-	-
Loss on disposal of capital assets	(11,125)	-	-
Payable forgiveness	-	327,042	-
Noncapital gifts	-	-	1,375
Net nonoperating revenues	2,124,717	829,698	412,108
Change in Net Position	\$ 387,069	\$ (923,094)	\$ (2,068,331)

Operating Results

The first component of the overall change in the Hospital's net position is its operating results. Generally, the operating income or loss is the difference between net patient service and other operating revenues and the expenses incurred to perform those services. The past three years the Hospital has had operating losses.

The operating loss for 2021 decreased by \$15,144 or 1% as compared to the decrease of \$727,647 or 29% in 2020. The primary components of the operating loss are:

- Net patient service revenue decreased \$343,037 or 3% in 2021 compared to an increase of \$2,343,423 or 26% in 2020. The decrease in 2021 is attributed to the COVID-19 pandemic. The increase in 2020 is attributed to increases in services provided by the Hospital.
- Contract salary and benefits expenses decreased \$517,120 or 7% in 2021 compared to an increase in 2020 of \$1,710,270 or 33%.
- Supplies and other increased in 2021 by \$129,098 or 5% compared to a decrease of \$98,286 or 4% in 2020.

Non-operating Revenues and Expenses

Non-operating revenues and expenses consist primarily of tax appropriations, interest expense, payable forgiveness, Provider Relief Funds, and forgiveness of Paycheck Protection Program loan. Tax appropriations increased \$76,535 or 10% in 2021 and increased \$54,097 or 8% in 2020. Interest expense increased \$25,242 or 10% in 2021 as compared to the decrease of \$31,534 or 11% in 2020. During 2020, the Hospital had payables forgiven in the amount of \$327,042. As a result of the COVID-19 pandemic, the Hospital received Provider Relief Funds during 2020 and recognized \$300,800 as nonoperating revenue. The Hospital received forgiveness of its Paycheck Protection Program loan in the amount of \$1,280,600.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating income and nonoperating revenues and expenses discussed earlier. The principal changes in the Hospital's nonoperating cash flows were:

- Net cash used for operating activities increased in 2021 by \$1,275,484 or 1,255% and decreased in 2020 by \$282,665 or 74%.
- Net cash from noncapital financing activities increased in 2021 by \$3,022,486 or 686% and increased in 2020 by \$16,603 or 4%.
- Net cash used for capital and capital related financing activities increased in 2021 by \$35,084 or 26% and increased in 2020 by \$36,473 or 36%.
- Net cash from investing activities increased in 2021 by \$493 or 8% and increased in 2020 by \$6,292 or 3,535%.

Capital Assets

The Hospital had \$1,641,570 invested in capital assets at the end of 2021 and \$1,874,650 at the end of 2020, net of accumulated depreciation, as detailed in Note 5 to the financial statements. The Hospital acquired new capital assets in 2021 costing \$104,462. The Hospital acquired new capital assets in 2020 costing \$132,031.

Debt

The Hospital had total debt of \$4,211,627 at the end of 2021. The Hospital incurred additional debt of \$1,320,584 in 2021, as detailed in Note 7 to the financial statements. The Hospital had total debt of \$4,396,882 at the end of 2020. The Hospital incurred additional debt of \$108,000 in 2020, as detailed in Note 7 to the financial statements.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital administration by calling 918-774-1100.

Sequoyah County-City of Sallisaw Hospital Authority
d/b/a Northeastern Health System Sequoyah
Statements of Net Position
March 31, 2021 and 2020

	2021	2020 Restated
Assets		
Current Assets		
Cash	\$ 2,262,330	\$ 341,572
Receivables		
Patient, net of estimated uncollectibles of \$5,136,000 in 2021 and \$4,831,000 in 2020	2,926,281	3,495,652
Tax appropriation	133,027	129,656
Supplies	536,984	361,016
Prepaid expenses and other current assets	2,800	-
Total current assets	5,861,422	4,327,896
Capital Assets		
Capital assets not being depreciated	193,633	193,633
Capital assets being depreciated, net	1,447,937	1,681,017
Total capital assets, net	1,641,570	1,874,650
Total assets	\$ 7,502,992	\$ 6,202,546

Sequoyah County-City of Sallisaw Hospital Authority
d/b/a Northeastern Health System Sequoyah
Statements of Net Position
March 31, 2021 and 2020

	2021	2020 Restated
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 4,017,148	\$ 225,626
Current maturities of CMS advance payments	739,208	-
Accounts payable	6,378,178	6,721,903
Total current liabilities	11,134,534	6,947,529
Long-Term Liabilities		
Long-term debt, less current maturities	194,479	4,171,256
CMS advance payment, less current maturities	703,149	-
Total long-term liabilities	897,628	4,171,256
Total liabilities	12,032,162	11,118,785
Net Position (Deficit)		
Net investment in capital assets	1,353,321	1,512,584
Unrestricted	(5,882,491)	(6,428,823)
Total net position (deficit)	(4,529,170)	(4,916,239)
Total liabilities and net position	\$ 7,502,992	\$ 6,202,546

Sequoyah County-City of Sallisaw Hospital Authority
d/b/a Northeastern Health System Sequoyah
Statements of Revenues, Expenses and Changes in Net Position
Years Ended March 31, 2021 and 2020

	2021	2020 Restated
Operating Revenue		
Net patient service revenue, net of provision for bad debts of \$5,815,676 in 2021 and \$5,515,657 in 2020	\$ 11,048,071	\$ 11,391,108
Other revenue	44,188	197,703
Total operating revenues	11,092,259	11,588,811
Operating Expenses		
Contract salary and benefits	7,298,350	7,815,470
Purchased services and professional fees	2,454,602	2,542,312
Supplies and other	2,750,538	2,621,440
Depreciation	326,417	362,381
Total operating expenses	12,829,907	13,341,603
Operating Loss	(1,737,648)	(1,752,792)
Nonoperating Revenues (Expenses)		
Interest income	6,963	6,470
Tax appropriations	833,346	756,811
Interest expense	(285,867)	(260,625)
Payable forgiveness	-	327,042
Loss on disposal of capital assets	(11,125)	-
Provider Relief Funds	300,800	-
Forgiveness of Paycheck Protection Program Loan	1,280,600	-
Total nonoperating revenues (expenses)	2,124,717	829,698
Revenues in Excess of (less than) Expenses and Change in Net Position	387,069	(923,094)
Net Position (Deficit), Beginning of Year	(4,916,239)	(3,993,145)
Net Position (Deficit), End of Year	\$ (4,529,170)	\$ (4,916,239)

Sequoyah County-City of Sallisaw Hospital Authority
d/b/a Northeastern Health System Sequoyah
Statements of Cash Flows
Years Ended March 31, 2021 and 2020

	2021	2020 Restated
Operating Activities		
Receipts from and on behalf of patients	\$ 11,617,442	\$ 9,687,604
Payments to suppliers and contractors	(5,740,435)	(2,167,417)
Payments to contract employees	(7,298,350)	(7,819,561)
Other receipts	44,188	197,703
Net Cash used for Operating Activities	<u>(1,377,155)</u>	<u>(101,671)</u>
Noncapital Related Financing Activities		
Tax appropriations	829,975	749,233
Net proceeds from Paycheck Protection Program Loan	1,280,600	-
Grants and contributions Provider Relief Fund	300,800	-
Principal payments on long-term debt	(111,438)	(57,248)
Interest paid	(279,213)	(251,390)
Net proceeds from CMS advance payments	1,442,357	-
Net Cash from Noncapital Related Financing Activities	<u>3,463,081</u>	<u>440,595</u>
Capital and Related Financing Activities		
Principal payments on long-term debt	(100,999)	(103,781)
Interest paid	(6,654)	(9,235)
Purchase of property and equipment	(64,478)	(24,031)
Net Cash used for Capital and Related Financing Activities	<u>(172,131)</u>	<u>(137,047)</u>
Investing Activities		
Interest income	6,963	6,470
Net Change in Cash and Cash Equivalents	1,920,758	208,347
Cash and Cash Equivalents, Beginning of Year	<u>341,572</u>	<u>133,225</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,262,330</u>	<u>\$ 341,572</u>

Sequoyah County-City of Sallisaw Hospital Authority
d/b/a Northeastern Health System Sequoyah
Statements of Cash Flows
Years Ended March 31, 2021 and 2020

	2021	2020 Restated
Reconciliation of Operating Loss to Net Cash used for Operating Activities		
Operating Loss	\$ (1,737,648)	\$ (1,752,792)
Adjustments to reconcile operating loss to net cash used for operating activities		
Depreciation	326,417	362,381
Provision for bad debts	5,815,676	5,515,657
Changes in assets and liabilities		
Patient receivables	(5,246,305)	(7,177,161)
Supplies	(175,968)	9,066
Prepaid expenses and other	(2,800)	158,488
Accounts payable	(356,527)	2,828,781
Accrued expenses	-	(4,091)
Estimated third-party payor settlements	-	(42,000)
Net Cash used for Operating Activities	\$ (1,377,155)	\$ (101,671)
Supplemental Disclosure of Noncash Capital and Capital Related Financing Activities		
Equipment financed through note payable	\$ 39,984	\$ 108,000
Debt reduction in accounts payable	\$ 12,802	\$ 20,761
Supplemental Disclosure of Noncash Noncapital Related		
Paycheck Protection Program Loan forgiveness	\$ 1,280,600	\$ -
Payable forgiveness	\$ -	\$ 327,042

Sequoyah County-City of Sallisaw Hospital Authority
d/b/a Northeastern Health System Sequoyah

Notes to Financial Statements
March 31, 2021 and 2020

Note 1 - Reporting Entity and Summary of Significant Accounting Policies

The financial statements of Sequoyah County-City of Sallisaw Hospital Authority d/b/a Northeastern Health System Sequoyah (Hospital) have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the Hospital are described below.

Reporting Entity

The Hospital is a 35-bed acute care hospital located in the city of Sallisaw, Oklahoma (City). The Hospital is a public trust created under the laws of the State of Oklahoma and is exempt from income taxes under Section 115 of the Internal Revenue Code as a political subdivision of the State of Oklahoma. The Hospital is governed by the Board of Trustees, which is appointed by the City. During 2018, the Hospital changed their trade name from Sequoyah Memorial Hospital to Northeastern Health System Sequoyah. Effective June 1, 2017, the Hospital signed a management service agreement with Tahlequah Hospital Authority (THA). The terms of the management service agreement are discussed in Note 12.

For financial reporting purposes, the Hospital has included all funds, organizations, agencies, boards, commissions, and authorities. The Hospital has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Hospital are such that the exclusion would cause the Hospital's financial situation to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital.

Blended Component Unit

On December 10, 2012, the SMH Physician Group, LLC (Physician Group), was established as a limited liability company in the state of Oklahoma for the purpose of providing physician services to patients in Sallisaw, Oklahoma, and the surrounding communities. The Hospital is the sole member of the LLC. The Physician Group began operations on April 1, 2013. The Physician Group is included as a blended component unit of the Hospital. The financial statements include only the financial activity of the Hospital and Physician Group, collectively referred to as the Hospital. During 2021, the Hospital started the process of moving the operations of the Physician Group to the Hospital. Financial statements of the Physician Group can be obtained by contacting the Hospital's Administration.

Measurement Focus and Basis of Accounting and Presentation

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Sequoyah County-City of Sallisaw Hospital Authority
d/b/a Northeastern Health System Sequoyah

Notes to Financial Statements
March 31, 2021 and 2020

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

Basis of Presentation

The statement of net position displays the Hospital's assets and liabilities with the difference reported as net position. Net position is reported in the following categories/components:

Net investment in capital assets consists of net capital assets reduced by the outstanding balances of any related debt obligations attributable to the acquisition, construction or improvement of those assets or the related debt obligations related to those assets or debt obligations.

Restricted, expendable consists of assets whose use is restricted for a specific purpose. The Hospital does not have restricted net position as of March 31, 2021 and 2020.

Restricted, nonexpendable is subject to externally imposed stipulations which require them to be maintained permanently by the Hospital. The Hospital does not have restricted net position as of March 31, 2021 and 2020.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Hospital's policy is to first apply the expense toward the most restrictive resources and then toward unrestricted resources.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding internally designated or restricted cash and investments. For purposes of the statement of cash flows, the Hospital considers all cash and investments with an original maturity of three months or less as cash and cash equivalents.

Sequoiah County-City of Sallisaw Hospital Authority
d/b/a Northeastern Health System Sequoiah

Notes to Financial Statements
March 31, 2021 and 2020

Patient Receivables

Patient receivables are uncollateralized patient and third-party payor obligations. Patient receivables, excluding amounts due from third-party payors, are turned over to a collection agency if the receivables remain unpaid after the Hospital's collections procedures. The Hospital does not charge interest on the unpaid patient receivables. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

Tax Appropriations

The Hospital benefits from a 0.5% sales tax assessment to be used for operations of the Hospital. The tax, approved by the Board of Commissioners of the City of Sallisaw, has no expiration date. The Hospital received approximately 7% and 6% of its financial support from city appropriations during the years ended March 31, 2021 and 2020.

Supplies

Supplies are stated at lower of cost (first-in, first-out) or market and are expensed when used.

Capital Assets

Capital assets acquisitions in excess of \$500 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Amortization is included in depreciation in the financial statements. The estimated useful lives of property and equipment are as follows:

Land improvements	5-40 years
Buildings and improvements	5-40 years
Equipment	3-20 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position and are excluded from revenues in excess of (less than) expenses. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net position.

Sequoyah County-City of Sallisaw Hospital Authority
d/b/a Northeastern Health System Sequoyah

Notes to Financial Statements
March 31, 2021 and 2020

Compensated Absences

Effective January 2018, the Hospital transferred all employees to THA as part of the management service agreement. The Hospital has a payable recorded for compensated absences as they will reimburse THA when used. Employees earn vacation days at varying rates depending on years of service. Employees may accumulate vacation days up to a specified maximum. Compensated absence liabilities are computed using the regular pay in effect at the statements of net position date plus an additional amount for compensation related payments such as Social Security and Medicare taxes computed using rates in effect at that date.

Operating Revenues and Expenses

The Hospital's statements of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses of the Hospital result from exchange transactions associated with providing health care services - the Hospital's principal activity, and the costs of providing those services, including depreciation, and excluding interest cost. All other revenues and expenses are reported as nonoperating.

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charges foregone for services provided under the Hospital's charity care policy were approximately \$366,000 and \$214,000 for the years ended March 31, 2021 and 2020. Total direct and indirect costs related to these foregone charges were approximately \$126,000 and \$66,000 at March 31, 2021 and 2020, based on an average ratio of cost to gross charges.

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Grants and Contributions

The Hospital may receive grants as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after revenues in excess of (less than) expenses.

Payable Forgiveness

In February 2020, the Hospital had a tax abatement in the amount of \$327,042 from the Internal Revenue Service. There were no tax abatements during the year ending March 31, 2021.

New Accounting Pronouncement

The Hospital adopted the GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The new statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

Note 2 - Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare: Inpatient acute care and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per visit. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Outpatient services are paid based on a prospectively determined amount per procedure. The Hospital's Medicare cost reports have been audited by the MAC through March 31, 2018.

Medicaid: The Hospital is reimbursed for services rendered to patients covered by the State Medicaid Program on a prospective basis at predetermined rates with no retroactive adjustment. The Hospital has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

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Concentration of gross charges by major payor accounted for the following percentages of the Hospital's patient service revenues for the years ended March 31, 2021 and 2020:

	2021	2020
Medicare	49%	39%
Medicaid	14%	18%
Blue Cross	11%	10%
Commercial insurance	11%	20%
Other third-party payors and patients	15%	13%
	100%	100%

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

CMS Advance Payments

The CMS advance payments balance consist of advanced payments received from the Centers for Medicare & Medicaid Services (CMS), in order to increase cash flow for Medicare Part A providers who were impacted by COVID-19 pandemic. The Authority received \$1,442,357 in advance payments during April 2020, which will be recouped through Medicare claims processed beginning 365 days after payments are received and will continue until the balance of the advanced payments have been recouped, or for 29 months from the date that each advance payment was issued, at which point any remaining unpaid balance is due. The advance payments balance is noninterest bearing through the 29-month repayment period. The portion expected to be recouped in the next 12 months is included in current liabilities and the portion expected to be recouped in greater than 12 months is presented in long-term liabilities in the accompanying statements of net position.

Scheduled repayments for the CMS advance payments are as follows:

Years Ending March 31,

2022	\$ 739,208
2023	703,149
Total	\$ 1,442,357

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Note 3 - Provider Relief Fund

The Hospital received \$300,800 of Coronavirus Aid, Relief, and Economic Security (CARES) Act Provider Relief Funds administered by the Department of Health and Human Services (HHS). The funds are subject to terms and conditions imposed by HHS. Among the terms and conditions is a provision that payments will only be used to prevent, prepare for, and respond to coronavirus and shall reimburse the recipient only for healthcare-related expenses or lost revenues that are attributable to coronavirus. Recipients may not use the payments to reimburse expenses or losses that have been reimbursed from other sources or that other sources are obligated to reimburse. HHS currently has a deadline to incur eligible expenses of June 30, 2021. Unspent funds will be expected to be repaid.

These funds are considered subsidies and recorded as a liability when received and are recognized as revenues in the accompanying statements of revenues, expenses, and changes in net position as all terms and conditions are considered met. As these funds are considered subsidies, they are considered nonoperating activities. The terms and conditions are subject to interpretation, changes, and future clarification, the most recent of which have been considered through the date that the financial statements were available to be issued. In addition, this program may be subject to oversight, monitoring, and audit. Failure by a provider that received a payment from the Provider Relief Fund to comply with any term or condition can subject the provider to recoupment of some or all of the payment. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

During the year ended March 31, 2021, the Hospital recognized \$300,800 as revenue, included as nonoperating activities on the statement of revenues, expenses, and changes in net position.

Note 4 - Deposits

Cash consisted of cash deposits in banks as of March 31, 2021 and 2020.

Deposits – Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank or investment company failure, the Hospital's deposits may not be returned to it. State statute requires that any deposits in excess of federal depository or other insured amounts be collateralized by U.S. Government securities in the name of the Hospital. Statutes also require that the market value of the collateral be at least 100% of the excess deposits. The Hospital's deposit policy does not further restrict bank deposits or limit investment deposits.

The Hospital's deposits in banks at March 31, 2021 and 2020 were entirely covered by federal depository insurance or by collateral held by the Hospital's custodial bank in the Hospital's name.

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Note 5 - Capital Assets

Capital assets additions, retirements, transfers, and balances for the year ended March 31, 2021 are as follows:

	Balance March 31, 2020	Additions	Transfers and Retirements	Balance March 31, 2021
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Capital assets not being depreciated				
Land	\$ 193,633	\$ -	\$ -	\$ 193,633
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Capital assets being depreciated				
Land improvements	\$ 34,539		\$ (51)	\$ 34,488
Building and improvements	3,362,534	-	-	3,362,534
Major moveable and fixed equipment	9,600,536	104,462	(577,970)	9,127,028
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total capital assets being depreciated	12,997,609	\$ 104,462	\$ (578,021)	12,524,050
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Less accumulated depreciation for				
Land improvements	25,682	\$ 1,862	\$ -	27,544
Building and improvements	2,683,124	44,663	-	2,727,787
Major moveable and fixed equipment	8,607,786	279,892	(566,896)	8,320,782
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total accumulated depreciation	11,316,592	\$ 326,417	\$ (566,896)	11,076,113
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net capital assets being depreciated	\$ 1,681,017			\$ 1,447,937
	<u> </u>			<u> </u>
Capital assets, net	\$ 1,874,650			\$ 1,641,570
	<u> </u>			<u> </u>

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Capital assets additions, retirements, transfers, and balances for the year ended March 31, 2020 are as follows:

	<u>Balance March 31, 2019</u>	<u>Additions</u>	<u>Transfers and Retirements</u>	<u>Balance March 31, 2020</u>
Capital assets not being depreciated				
Land	\$ 193,633	\$ -	\$ -	\$ 193,633
Capital assets being depreciated				
Land improvements	\$ 34,488	\$ 51	\$ -	\$ 34,539
Building and improvements	3,362,534	-	-	3,362,534
Major moveable and fixed equipment	<u>9,468,556</u>	<u>131,980</u>	<u>-</u>	<u>9,600,536</u>
Total capital assets being depreciated	<u>12,865,578</u>	<u>\$ 132,031</u>	<u>\$ -</u>	<u>12,997,609</u>
Less accumulated depreciation for				
Land improvements	23,224	\$ 2,458	\$ -	25,682
Building and improvements	2,637,642	45,482	-	2,683,124
Major moveable and fixed equipment	<u>8,293,345</u>	<u>314,441</u>	<u>-</u>	<u>8,607,786</u>
Total accumulated depreciation	<u>10,954,211</u>	<u>\$ 362,381</u>	<u>\$ -</u>	<u>11,316,592</u>
Net capital assets being depreciated	<u>\$ 1,911,367</u>			<u>\$ 1,681,017</u>
Capital assets, net	<u>\$ 2,105,000</u>			<u>\$ 1,874,650</u>

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Note 6 - Lease Obligations

The Hospital leases certain equipment under noncancelable long-term lease agreements. Certain leases have been recorded as capital leases and others as operating leases. Total lease expense for the years ended March 31, 2021 and 2020 for all operating leases was approximately \$71,000 and \$47,000. The capitalized leased assets consist of:

	2021	2020
Major movable equipment	\$ 364,361	\$ 560,743
Less accumulated amortization	(231,629)	(335,501)
	\$ 132,732	\$ 225,242

Note 7 - Long-Term Debt

A schedule of changes in the Hospital's long-term debt for the year ended March 31, 2021 is as follows:

	Balance March 31, 2020	Additions	Payments	Balance March 31, 2021	Due Within One Year
Notes from Direct Borrowings					
Note payable (1)	\$ 3,971,355	\$ -	\$ (79,840)	\$ 3,891,515	\$ 3,891,515
Note payable (2)	63,461	-	(31,598)	31,863	31,863
Note payable (3)	82,080	-	(17,280)	64,800	17,280
Note payable (4)	-	1,280,600	(1,280,600)	-	-
Total notes from direct borrowings	4,116,896	1,280,600	(1,409,318)	3,988,178	3,940,658
Capital lease (5)	21,047	-	(21,047)	-	-
Capital lease (6)	258,939	-	(67,144)	191,795	56,498
Capital lease (7)	-	39,984	(8,330)	31,654	19,992
Total capital leases	279,986	39,984	(96,521)	223,449	76,490
Total long-term debt	\$ 4,396,882	\$ 1,320,584	\$ (1,505,839)	\$ 4,211,627	\$ 4,017,148

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A schedule of changes in the Hospital's long-term debt for the year ended March 31, 2020 is as follows:

	Balance March 31, 2019	Additions	Payments	Balance March 31, 2020	Due Within One Year
Notes from Direct Borrowings					
Note payable (1)	\$ 4,000,000	\$ -	\$ (28,645)	\$ 3,971,355	\$ 104,898
Note payable (2)	92,064	-	(28,603)	63,461	31,598
Note payable (3)	-	108,000	(25,920)	82,080	17,280
Total notes from direct borrowings	4,092,064	108,000	(83,168)	4,116,896	153,776
Capital lease (5)	62,128	-	(41,081)	21,047	21,047
Capital lease (6)	316,480	-	(57,541)	258,939	50,803
Total capital leases	378,608	-	(98,622)	279,986	71,850
Total long-term debt	\$ 4,470,672	\$ 108,000	\$ (181,790)	\$ 4,396,882	\$ 225,626

The terms and due dates of the Hospital's long-term debt at March 31, 2021 and 2020 are as follows:

1. Demand note payable to bank with a variable interest rate Wall Street Journal Prime plus 1.75% (6.75% as of March 31, 2021). The note was modified March 28, 2019 changing maturity date of December 28, 2037 to December 28, 2040 and extending the interest only payments to December 28, 2019. The Hospital will make monthly principal and interest in monthly installments of \$29,550 beginning January 28, 2020, secured by assets of the Hospital.
2. Promissory note to a physician with an interest rate of 10.00%, due in monthly installments of \$3,044, unsecured, due February 2022.
3. Vendor note payable with -0-% stated interest rate, initial payment of \$21,600 followed by monthly installments of \$1,440 beginning January 1, 2020, collateralized by associated equipment, due December 2024.
4. The Hospital was granted a \$1,280,600 loan under the PPP administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The Hospital initially recorded a note payable and subsequently recorded forgiveness when the loan obligation was legally released by the SBA. The Hospital recognized \$1,280,600 of loan forgiveness income for the year ended March 31, 2021.
5. Capital lease with imputed interest rate of 3.25%, due in monthly installments of \$3,541, collateralized by associated equipment, due September 2020.
6. Capital lease with imputed interest rate of 2.74%, due in monthly installments of \$4,771, collateralized by associated equipment, due December 2024.
7. Capital lease with imputed interest rate of -0-%, due in monthly installments of \$1,666, collateralized by associated equipment, due October 2022.

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Future payments of principal and interest on the long-term debt obligations are as follows:

Year Ending March 31,	Notes Payable		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2022	\$ 3,940,658	\$ 245,613	\$ 76,490	\$ 5,530
2023	17,280	-	65,320	3,598
2024	17,280	-	55,145	2,111
2025	12,960	-	26,494	593
Total	<u>\$ 3,988,178</u>	<u>\$ 245,613</u>	<u>\$ 223,449</u>	<u>\$ 11,832</u>

Note 8 - Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, many of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at March 31, 2021 and 2020 was as follows:

	2021	2020
Medicare	14%	38%
Medicaid	5%	9%
Blue Cross	7%	6%
Other commercial insurance	21%	12%
Other third-party payors and patients	53%	35%
	<u>100%</u>	<u>100%</u>

Note 9 - Contingencies

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of or damage of assets; business interruptions; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Malpractice Insurance

The Hospital has malpractice insurance coverage to provide protection for professional liability losses on an occurrence-based coverage subject to a limit of \$1,000,000 per claim and an annual aggregate limit of \$3,000,000.

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Litigations, Claims, and Disputes

The Hospital is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of any litigation, claims, and disputes in process will not be material to the financial position, operations, or cash flows of the Hospital.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

Note 10 - Condensed Combining Information

The following summarizes combining information for the Hospital and Physician Group, which has been presented as a blended component unit, as of and for the year ended March 31, 2021.

Statement of net position as of March 31, 2021:

	Sequoiah Memorial Hospital	SMH Physician Group, LLC	Eliminations	Total
Assets				
Current assets	\$ 6,142,878	\$ 100,311	\$ (381,767)	\$ 5,861,422
Capital assets	1,556,767	84,803	-	1,641,570
Total assets	\$ 7,699,645	\$ 185,114	\$ (381,767)	\$ 7,502,992
Liabilities and Net Position				
Current liabilities	\$ 11,134,534	\$ 381,767	\$ (381,767)	\$ 11,134,534
Long-term liabilities	897,628	-	-	897,628
Total liabilities	12,032,162	381,767	(381,767)	12,032,162
Net Position (Deficit)				
Net investment in capital assets	1,268,518	84,803	-	1,353,321
Unrestricted	(5,601,035)	(281,456)	-	(5,882,491)
Total net position (deficit)	(4,332,517)	(196,653)	-	(4,529,170)
Total liabilities and net position	\$ 7,699,645	\$ 185,114	\$ (381,767)	\$ 7,502,992

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Operating results and changes in net position for the year ended March 31, 2021:

	Sequoyah Memorial Hospital	SMH Physician Group, LLC	Eliminations	Total
Operating Revenues				
Net patient service revenue	\$ 11,048,071	\$ -	\$ -	\$ 11,048,071
Other revenue	44,188	-	-	44,188
Total operating revenue	11,092,259	-	-	11,092,259
Operating Expenses				
Depreciation	318,515	7,902	-	326,417
Other operating expenses	12,495,551	7,939	-	12,503,490
Total operating expenses	12,814,066	15,841	-	12,829,907
Operating Loss	(1,721,807)	(15,841)	-	(1,737,648)
Nonoperating Revenue (Expense)				
Interest income	6,880	83	-	6,963
Tax appropriations	833,346	-	-	833,346
Interest expense	(285,867)	-	-	(285,867)
Loss on the disposal of capital assets	(11,125)	-	-	(11,125)
Provider Relief Funds	300,800	-	-	300,800
Forgiveness of PPP Loan	1,280,600	-	-	1,280,600
Total nonoperating revenue (expense)	2,124,634	83	-	2,124,717
Revenues in Excess of (less than) Expenses and Change in Net Position	402,827	(15,758)	-	387,069
Net Position (Deficit), Beginning of Year	(4,735,344)	(180,895)	-	(4,916,239)
Net Position (Deficit), End of Year	\$ (4,332,517)	\$ (196,653)	\$ -	\$ (4,529,170)

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Cash flows for the year ended March 31, 2021:

	Sequoyah Memorial Hospital	SMH Physician Group, LLC	Total
Net Cash from (used for) Operating Activities	\$ (1,440,690)	\$ 63,535	\$ (1,377,155)
Net Cash from Noncapital Related Financing Activities	3,463,081	-	3,463,081
Net Cash used for Capital and Related Financing Activities	(172,131)	-	(172,131)
Net Cash from Investing Activities	<u>6,963</u>	<u>-</u>	<u>6,963</u>
Net Change in Cash and Cash Equivalents	1,857,223	63,535	1,920,758
Cash and Cash Equivalents, Beginning of Year	<u>304,796</u>	<u>36,776</u>	<u>341,572</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,162,019</u>	<u>\$ 100,311</u>	<u>\$ 2,262,330</u>

The following summarizes combining information for the Hospital and Physician Group, which has been presented as a blended component unit, as of and for the year ended March 31, 2020.

Statement of net position as of March 31, 2020:

	Sequoyah Memorial Hospital	SMH Physician Group, LLC	Eliminations	Total
Assets				
Current assets	\$ 4,601,496	\$ 239,863	\$ (513,463)	\$ 4,327,896
Capital assets	<u>1,781,945</u>	<u>92,705</u>	<u>-</u>	<u>1,874,650</u>
Total assets	<u>\$ 6,383,441</u>	<u>\$ 332,568</u>	<u>\$ (513,463)</u>	<u>\$ 6,202,546</u>
Liabilities and Net Position				
Current liabilities	\$ 6,947,529	\$ 513,463	\$ (513,463)	\$ 6,947,529
Long-term liabilities	<u>4,171,256</u>	<u>-</u>	<u>-</u>	<u>4,171,256</u>
Total liabilities	<u>11,118,785</u>	<u>513,463</u>	<u>(513,463)</u>	<u>11,118,785</u>
Net Position (Deficit)				
Net investment in capital assets	1,419,879	92,705	-	1,512,584
Unrestricted	<u>(6,155,223)</u>	<u>(273,600)</u>	<u>-</u>	<u>(6,428,823)</u>
Total net position (deficit)	<u>(4,735,344)</u>	<u>(180,895)</u>	<u>-</u>	<u>(4,916,239)</u>
Total liabilities and net position	<u>\$ 6,383,441</u>	<u>\$ 332,568</u>	<u>\$ (513,463)</u>	<u>\$ 6,202,546</u>

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Operating results and changes in net position for the year ended March 31, 2020:

	Sequoyah Memorial Hospital	SMH Physician Group, LLC	Eliminations	Total
Operating Revenues				
Net patient service revenue	\$ 10,967,311	\$ 423,797	\$ -	\$ 11,391,108
Other revenue	212,103	-	(14,400)	197,703
Total operating revenue	11,179,414	423,797	(14,400)	11,588,811
Operating Expenses				
Depreciation	353,193	9,188	-	362,381
Other operating expenses	12,612,427	381,195	(14,400)	12,979,222
Total operating expenses	12,965,620	390,383	(14,400)	13,341,603
Operating Income (Loss)	(1,786,206)	33,414	-	(1,752,792)
Nonoperating Revenue (Expense)				
Interest income	6,208	262	-	6,470
Tax appropriations	756,811	-	-	756,811
Interest expense	(260,625)	-	-	(260,625)
Payable forgiveness	327,042	-	-	327,042
Total non operating revenue (expense)	829,436	262	-	829,698
Revenues in Excess of (less than) Expenses and Change in Net Position	(956,770)	33,676	-	(923,094)
Net Position (Deficit), Beginning of Year	(3,778,574)	(214,571)	-	(3,993,145)
Net Position (Deficit), End of Year	\$ (4,735,344)	\$ (180,895)	\$ -	\$ (4,916,239)

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Cash flows for the year ended March 31, 2020:

	Sequoyah Memorial Hospital	SMH Physician Group, LLC	Total
Net Cash from (used for) Operating Activities	\$ (117,036)	\$ 15,365	\$ (101,671)
Net Cash from Noncapital Financing Activities	440,595	-	440,595
Net Cash used for Capital and related Financing Activities	(137,047)	-	(137,047)
Net Cash from Investing Activities	<u>6,470</u>	<u>-</u>	<u>6,470</u>
Net Change in Cash	192,982	15,365	208,347
Cash, Beginning of Year	<u>111,814</u>	<u>21,411</u>	<u>133,225</u>
Cash, End of Year	<u>\$ 304,796</u>	<u>\$ 36,776</u>	<u>\$ 341,572</u>

Note 11 - Supplemental Hospital Offset Payment Program Act

The Supplemental Hospital Offset Payment Program Act (SHOPP), designated as House Bill 1381 (HB 1381), was passed during 2011 implementing a fee on hospitals to generate matching funds to the state of Oklahoma from federal sources. The program is designed to assess Oklahoma hospitals, unless exempt, a supplemental hospital offset payment program fee. The collected fees will be placed in pools and then allocated to hospitals as directed by legislation. The Oklahoma Health Care Authority (OHCA) does not guarantee that allocations will or equal or exceed the amount of the supplemental hospital offset payment program fee paid by the hospital.

The Hospital records payments to other expenses and receipts as net patient service revenue. The Hospital made SHOPP payments totaling \$294,470, for the year ended March 31, 2021. In return, the Hospital received \$472,874. The Hospital made SHOPP payments totaling \$343,634, for the year ended March 31, 2020. In return, the Hospital received \$510,077. Future changes in law or regulation at the federal or state level can adversely affect or eliminate SHOPP.

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March 31, 2021 and 2020

Note 12 - Management Agreement

Effective June 1, 2017, the Hospital's board entered into a management contract with THA. The contract is for a five-year term with automatic renewal term of five years. The Hospital is to pay \$15,000 per month for the management services and 5% of receipts from patient billing for billing and collection services. The Hospital will reimburse THA all salaries plus 30% for benefits. The Hospital will pay THA an incentive based on net profits above \$250,000. The Hospital paid THA \$6,824,932 and \$5,346,722 for contracted salary and benefits, management fees and other professional services in the year ended March 31, 2021 and 2020. As of March 31, 2021 and 2020, the Hospital owes THA \$5,338,765 and \$5,524,730 for contracted salary and benefits, management fees and other professional services. As of March 31, 2021 and 2020, the Hospital owes \$212,423 and \$258,939 for equipment leased from THA.

Note 13 - Recurring Losses and Management Plans

The Hospital has incurred operating losses during the years ended March 31, 2021 and 2020. For the year ended March 31, 2021, the Hospital experienced an increase in net position of \$387,069. For the year ended March 31, 2020, the Hospital experienced a decrease in net position of \$923,094. The Hospital is looking into areas to reduce cost without impacting patient care. The Hospital is in the third year of the management agreement which has resulted in additional services being provided and reduction of expenses at the Hospital. Management believes these plans alleviate substantial doubt about the Hospital's ability to continue as a going concern for one year from the report date.

Note 14 - Correction of Error

The financial statements were restated for the year ended March 31, 2020 to correct an error in accounts payable, net patient service revenue, purchased services and professional fees and supplies and other expenses and net deficit as a result of unrecorded liabilities in the amount of \$1,066,865.

The following is a summary of the effects of the restatement in the Hospital's statement of net position:

	<u>As Previously Reported March 31, 2020</u>	<u>Correction of Error</u>	<u>As Restated March 31, 2020</u>
Liabilities and Net Position			
Current Liabilities			
Accounts payable	\$ 5,655,038	\$ 1,066,865	\$ 6,721,903
Total current liabilities	5,880,664	1,066,865	6,947,529
Total liabilities	<u>10,051,920</u>	<u>1,066,865</u>	<u>11,118,785</u>
Net Position (Deficit)			
Unrestricted	<u>(5,361,958)</u>	<u>(1,066,865)</u>	<u>(6,428,823)</u>
Total net position (deficit)	<u>\$ (3,849,374)</u>	<u>\$ (1,066,865)</u>	<u>\$ (4,916,239)</u>

Sequoyah County-City of Sallisaw Hospital Authority
d/b/a Northeastern Health System Sequoyah

Notes to Financial Statements
March 31, 2021 and 2020

The following is a summary of the effects of the restatement in the Hospital's statement of revenues, expenses and change in net position:

	As Previously Reported March 31, 2020	Correction of Error	As Restated March 31, 2020
Operating Revenue			
Net patient service revenue	\$ 11,975,474	\$ (584,366)	\$ 11,391,108
Total operating revenues	<u>12,173,177</u>	<u>(584,366)</u>	<u>11,588,811</u>
Operating Expenses			
Purchased services and professional fees	2,499,280	43,032	2,542,312
Supplies and other	<u>2,500,868</u>	<u>120,572</u>	<u>2,621,440</u>
Total operating expenses	<u>13,177,999</u>	<u>163,604</u>	<u>13,341,603</u>
Operating Loss	<u>(1,004,822)</u>	<u>(747,970)</u>	<u>(1,752,792)</u>
Expenses in Excess of Revenues and Change in Net Position	(175,124)	(747,970)	(923,094)
Net Position (Deficit), Beginning of Year	<u>(3,674,250)</u>	<u>(318,895)</u>	<u>(3,993,145)</u>
Net Position (Deficit), End of Year	<u>\$ (3,849,374)</u>	<u>\$ (1,066,865)</u>	<u>\$ (4,916,239)</u>

The following is a summary of the effects of the restatement in the Hospital's statement of cash flows:

	As Previously Reported March 31, 2020	Correction of Error	As Restated March 31, 2020
Operating Activities			
Receipts from and on behalf of patients	\$ 10,271,970	\$ (584,366)	\$ 9,687,604
Payments to suppliers and contractors	\$ (2,751,783)	\$ 584,366	\$ (2,167,417)
Reconciliation of Operating Loss to Net Cash used for			
Operating Activities			
Operating Loss	\$ (1,004,822)	\$ (747,970)	\$ (1,752,792)
Changes in assets and liabilities			
Accounts payable	\$ 2,080,811	\$ 747,970	\$ 2,828,781

Note 15 - Subsequent Events

The Hospital has evaluated subsequent events through October 18, 2021 the date which the financial statements were available to be issued.



Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Trustees
Sequoyah County-City of Sallisaw Hospital Authority
d/b/a Northeastern Health System Sequoyah
Sallisaw, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Sequoyah Memorial Hospital Authority d/b/a Northeastern Health System Sequoyah (Hospital) as of and for the year ended March 31, 2021, and the related notes to the financial statements, which collectively comprise the Hospital’s basic financial statements and have issued our report thereon dated October 18, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses as item 2021-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Hospital's Response to Findings

The Hospital's response to the findings identified in our audit are described in the accompanying *Schedule of Findings and Responses*. The Hospital's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Eide Sully LLP".

Oklahoma City, Oklahoma
October 18, 2021

Material Weaknesses In Internal Control Over Financial Reporting:

2021-001 Prior Year Restatement

Criteria: Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

Condition: Management redeveloped internal control process for the fiscal year ending March 31, 2021 and identified a material misstatement in the prior year financial statements related to amounts due to the management company.

Cause: The control process was not fully implemented until the year ending March 31, 2021.

Effect: Restatement to the prior year restatements.

Auditor's Recommendation: Internal controls should be reevaluated periodically.

Views of Responsible Officials: We redeveloped our internal control process which resulted in the identification of the prior year material misstatement.